

# **Achieving Inclusive Growth through Better Infrastructure Regulation**

## **A Report**

1. CUTS Institute for Regulation & Competition (CIRC) organised a Policy Seminar on 17th July 2009 at the ASSOCHAM House, New Delhi. It was organised in the wake of ongoing debate on reforming regulatory framework to deliver better infrastructure services in India. Importantly the Union Budget of 2009-10, presented and discussed in the Parliament very recently, gave a lot of emphasis on inclusive growth and infrastructure development.
2. Hon'ble Minister of State for Corporate Affairs (Independent Charge) was the Chief Guest, while the three speakers were Pradeep S. Mehta, Secretary General of CUTS International; Dr Saumitra Chaudhuri, Member, Planning Commission and Swaminathan S. A. Aiyar, Consulting Editor of The Economic Times. Nitin Desai, Chairman of the CIRC Managing Committee moderated and chaired the programme.
3. As the first speaker, Mehta underlined that amongst other things an immediate priority of the government should be to ensure good functioning of the Competition Commission of India. In order to achieve greater effectiveness, the Commission requires capacity building. Focusing on the need of 'appropriate regulation' he said that "we must ensure that businesses do not misbehave but at the same time they are not burdened".
4. Highlighting the importance of infrastructure, he said that "it is like a ploughed field on which crops are grown". He cited several examples of recently announced regulatory bodies in ports, coal, housing, etc. He emphasised on the need for integrated approach in regulation of cognate sectors, for instance an integrated energy regulator covering coal sector as well. Setting up sectoral regulators covering multiple sectors will also help achieve independence of regulators and set them free of administrative control of a line ministry.
5. As the next speaker, Swami stated that "connectivity is the essence of inclusive growth". He cited the widening gap between *Bharat* and India wherein *Bharat* continues to lag on account of connectivity. Discussing the example of ITC's e-choupal he said that even adjacent villages are not properly connected with each other. Growth implies that villages should be well-connected. Since there is not much infrastructure such as electricity, telecommunications in many villages, one has to use the most expensive means to connect them. He said that only quality infrastructure can bridge the gap between *Bharat* and India.
6. Going on, Swami underlined that creation of infrastructure will help bringing jobs to an area. Citing the inadequacies of inappropriate regulatory framework, he discussed the issue of minor and major ports. States manage minor ports whereas the Centre manages major ports. Since minor is not defined, Gujarat created a large number of private ports, some of which are larger than major ports. An innovative state regulatory structure enabled this to happen. He further said that due to regulatory appropriateness, Gujarat has been able to provide onward connectivity from such ports and that seems to be working in favour of the people of those areas.
7. Saumitra Chaudhuri, Member of the Planning Commission of India stated that it is easy to impose regulation for everything. It is a slippery path and one must avoid too much regulation. India has an infrastructure deficit because of the nature of the state and natural monopolies.

8. Regulation is some kind of intervention which helps a country address abnormalities. He discussed various examples to say that India has the ability to create world-class regulators. “SEBI transformed India’s capital market into a world class one”, he added. We have State Electricity Regulatory Commissions (SERC) and the fact that tariffs are decided by SERCs has fetched better results than the earlier mechanism. He added a word of caution and said that we have to be careful about thinking that regulation will solve all problems.

9. Nitin Desai shared the experience of his own village which witnessed drastic change due to electricity, education and all weather road. People no longer work only for subsistence but have become small manufacturers due to infrastructure development. Inclusive growth is not just about infrastructure only but about when infrastructure actually reaches people. Today’s problems of infrastructure are less of connectivity and more of internal management. Suggesting a comprehensive approach to infrastructure, he said that we must focus on the last mile connecting the most backward areas with the more advanced ones to achieve the desired welfare goals. This will not happen only by privatisation or Public Private Partnerships but importantly also by active government engagement.

10. In the Q&A session, Ravi Chaudhuri from the Siemens Consulting Group said that inclusive growth cannot happen merely by more spending. Good policy is also required. At present, many policies are skewed against the poor in favour of rich. Allocation of spending is a key issue. Execution of allocation is not fair either. We also have poor governance. Governance means transparency. Anupam Khanna from the Global Development Network said that there were two ways to improve access – increasing availability and reducing prices. Regulation aims to address scarcity.

11. Swaminathan Aiyar said that the right to education is not about the right to attend government schools with no teachers. He advocated that let the government give vouchers and private sector provides education services. A voucher empowers a human being with more choice.

12. J. C. Srivastava from Indian Merchant’s Chamber said that power could bring inclusive growth but not enough emphasis is given to power. Adding to that, Anupam Khanna said that power comes before roads.

13. Tarun Shankar from the World Bank, in his personal capacity, said that inclusive growth and private sector seem like an oxymoron. If the issue is more about efficiency and allocation, it may be possible to set up public sector units and regulate them instead of regulating the private sector. So we should introduce new PSUs which are run efficiently and deliver because private sector can only bring about 30 percent of required investment in infrastructure.

14. Amit Kumar from Amarchand Mangaldas asked how we could effectively implement the existing infrastructure regulations. Development of the electricity sector was hampered because its regulation was not done properly. We have tools to regulate better and must do it.

15. K. S. Mehta of S. S. Kothari, Mehta & Company took the example of SEBI (Securities and Exchange Board of India) as an efficient regulator. SEBI has different departments to cater to different stakeholders. Regulators need to be open to outside currents and should be well staffed to build good regulatory practices.

16. Salman Khurshid, Hon'ble Minister for Corporate Affairs and Minister of Minority Affairs was to deliver the keynote address after the three speakers had spoken, but he suggested that let the Q&A session precede his address, so that he can capture the spirit of discussions and respond holistically. When his turn came, he emphasised that while growth is necessary the problem is to achieve inclusive growth. He asked a few basic questions: should we achieve growth first and then engage into redistribution? Or we target redistribution at the same time. Infrastructure is like a bed rock of the growth process.

17. The idea of inclusive growth means growing with inclusion. Does regulation ensure this? Did the socialist model prevent certain growth impetus because it wanted to avoid non-inclusive growth? Is regulation about being willing to compromise on growth because it is non-inclusive? The Right to Information Act attempts to bring about transparency in the system of governance but there are some hiccups.

18. The main issue is: what is the purpose of regulation? He exemplified that regulations were brought in when some sectors grew fast such as telecommunications. But that also allowed unregulated growth for certain companies who then use such regulations in their favour – the question is, is it regulation for exclusion or regulation for a select few? He advised that regulatory bodies must do impact studies to see if their regulation is inclusive or not. He suggested that it would be a good if researchers can devise an inclusivity index which can make the debate lot more informed.

19. At the end, Khurshid released the policy document *Developing Infrastructure through an Ideal Regulatory Framework* published by CIRC. Nitin Desai explained that the book is a compilation of a number of articles advocating for regulatory reforms in the infrastructure sector. He added that this publication would help policy makers to take appropriate measures for better infrastructure regulation and growth in India.